

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
CORPUS CHRISTI DIVISION

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| In re: | § | Chapter 11 |
| TRANSTEXAS GAS CORPORATION, <u>et al.</u> | § | Case No. 02-21926 |
| Debtors. | § | (Jointly Administered) |

**MOTION OF THE DEBTORS FOR AUTHORIZATION TO
(I) SELL REAL PROPERTY FREE AND CLEAR OF LIENS AND OTHER
INTERESTS PURSUANT 11 U.S.C. § 363 AND (II) ENTER INTO
TERM PARTIAL ASSIGNMENT OF OIL, GAS & MINERAL LEASES WITH
CHAPARRAL NATURAL RESOURCES, INC.**

TO: THE HONORABLE RICHARD S. SCHMIDT,
UNITED STATES BANKRUPTCY JUDGE

TransTexas Gas Corporation, and certain of its subsidiaries, Galveston Bay Processing Corporation and Galveston Bay Pipeline Company, (collectively, the “Debtors”) file their motion (the “Motion”) for an order authorizing the Debtors to (i) sell property free and clear of claims and other interests and (ii) enter into a term partial assignment with Chaparral Natural Resources, Inc., and respectfully state as follows:

Jurisdiction

1. This Court has jurisdiction to consider this Motion pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b).

2. The relief sought in this Motion is based upon Bankruptcy Rule 1007(c).

Background

3. On November 14, 2002 (the “Commencement Date”), the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code (collectively, the “Chapter

11 Cases"). The Debtors continue to operate their businesses and manage their properties and assets as debtors-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. The Chapter 11 Cases are jointly administered pursuant to an Order of this Court dated November 15, 2002.

Relief Requested

4. The Debtor seeks authority to sell real property of the estate free and clear of liens and other interests pursuant to § 363(b) and (f) of the Bankruptcy Code and to enter into a term partial assignment of oil, gas & mineral leases to develop the property to be conveyed.

5. Debtor TransTexas Gas Corporation ("TTXG") is an owner of the following oil, gas and mineral lease interest:

(a) the sole owner of an approximately 940.5 acre Sandy Creek lease block in the Sandy Creek Prospect located in Jackson County, Texas pursuant to four (4) Oil, Gas and Mineral leases dated from June 1, 2002 to July 2, 2002

(the "Sandy Creek Prospect") (a summary of the individual leases are attached hereto as *Exhibit A.*

6. Debtor TransTexas Gas Corporation and Chaparral Natural Resources, Inc. ("Chaparral") have negotiated a Term Partial Assignment of Oil, Gas & Mineral Leases ("Term Assignment) for the exploration and development of the Sandy Creek Prospects on favorable "promoted" terms. This Prospect is internally generated drilling prospects targeting Eocene Upper and Middle Wilcox Sands at depths below 12,500' along trend with other TransTexas natural gas discoveries, including the S.W. Bonus Field, Guenther Field, Hudgins Rach Field and Jones Creek Field.

7. The sale is conditioned upon the TransTexas transferring an undivided 83.3333% interest to Chaparral in the Sandy Creek Prospect. The proposed trade with Chaparral is described as follows:

MOTION OF THE DEBTORS FOR AUTHORIZATION TO (I) SELL REAL PROPERTY FREE AND CLEAR OF LIENS AND OTHER INTERESTS PURSUANT 11 U.S.C. § 363 AND (II) ENTER INTO TERM PARTIAL ASSIGNMENT OF OIL, GAS & MINERAL LEASES WITH CHAPARRAL NATURAL RESOURCES, INC. - page 2
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(1) Purchase Price: Chaparral will pay TTXG the amount of \$94,050 as a bonus payment upon delivery of the Term Assignment with a special warranty deed;

(2) Well Information: TTXG will receive well info on any well drilled by Chaparral in a large area surrounding the 940.5 acre Sandy Creek Prospect;

(3) Reversion of Rights if No Drilling Occurs: TTXG's Term Assignment of the acreage will extend only until September 11, 2003 and/or as long thereafter as Chaparral is drilling/producing;

(4) Drilling Promote: Chaparral's first well on the Sandy Creek Prospect must target depths below 11,000' (Wilcox). TTXG will retain a 1/6th leasehold interest and if Chaparral drills on the Sandy Creek Prospect, then all costs attributable to the TTXG interest through the sales hookup on the first well will be borne and paid by Chaparral. This gives TTXG a meaningful interest in the prospect at no cost or risk on the first well. Chaparral's cost for a completed 11,000'+ well will be at least \$2-3 million, so on a dollar-of-cost basis, this "carry" could be worth at least \$333,333-\$500,000 risk-free;

(5) Reversion of Deep Rights. The rights to depths 100' below Chaparral's TD will eventually revert to TTXG – 110% after Chaparral ceases drilling for 150 days; and

(6) Operations. Chaparral intends to turn over operations to Peoples Energy Production – Texas L.P. and this change of operation is approved by TTXG.

Basis for Relief

8. Section 363(b)(1) of the Bankruptcy Code provides that the "[t]rustee, after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate." 112 U.S.C. § 363(b)(1). Such a motion may be approved if it is supported by a sound business justification. *See, Institutional Creditors of Continental Airlines, Inc. v. Continental Airlines, Inc. (In re Continental Airlines, Inc.)*, 780 F.2d 1223, 1226 (5th Cir. 1986). A bankruptcy court is to give deference to the business judgment of the trustee or debtor-in-possession when it deems the sale to be appropriate. *See, Esposito v. Title Ins. Co. of Pa. (In re Fernwood)*, 73 B.R. 616, 621 n.2 (Bankr. E.D. Pa. 1987).

9. Debtor TransTexas has determined that selling the lease interests to Chaparral and entering into the Term Assignment will realize the greatest possible recovery for its creditors and other parties-in-interest. The proposed trade offers the Debtors an opportunity to

participate as a Non-Operator for a significant interest in a third-party's prospect at no additional up-front cost or risk. The proposed trade will involve only "excess" acreage (acreage not critical to TransTexas's drilling prospect) and the rights transferred will revert to TransTexas if Chaparral does not conduct the specified drilling operations before September 11, 2003. The Term Assignment does not diminish or impair TransTexas' ability to drill and test the original objectives in the Sandy Creek Prospect.

10. The Debtors are informed and believe that (i) GMAC Commercial Credit LLC ("GMAC"), as lender and as agent, (ii) Credit Suisse First Boston Management Corporation, (iii) Angelo Gordon & Co. L.P., (iv) Oaktree Capital Management, as lenders, assert liens against the Prospects by virtue of an Oil & Gas Revolving Credit and Term Loan Agreement ("Oil & Gas Facility") dated March 15, 2000. The value of the secured claims pursuant to the Oil & Gas Facility is approximately \$51,937,500, plus accrued interest.

11. The Debtors also are informed and believe that FirstStar Bank, N.A. n/k/a U.S. Bank National Association ("US Bank"), as Trustee for the 15% Senior Secured Notes Due 2005, assert a lien against the Prospects by virtue of an Indenture ("Indenture") dated March 15, 2002. The value of the secured claims pursuant to the Indenture is \$216,333,333, plus accrued interest

12. Pursuant to § 363(f)(3) of the Bankruptcy Code, the Debtors seek authority to sell the interests in the Prospects free and clear of all liens, claims and interests, with such liens, claims and interests, including the lien asserted by GMAC, as lender and agent, and US Bank, as Trustee to attach to the proceeds of such sale, subject to the rights and defenses, if any, of the Debtor with respect to thereto. *In re Elliot*, 94 B.R. 343, 345 (E.D. Pa. 1988)(section

363(f) written in disjunctive; court may approve sale “free and clear” provided at least one requirement is met).

Notice

13. As of the filing of this Motion, no trustee, examiner or creditors’ committee has been appointed in these Chapter 11 Cases. As set forth in the certificate of service attached hereto, the Debtors have served all parties required to receive notice pursuant to this Courts’ Order regarding complex case procedures dated November 15, 2002. Because of the exigencies of the circumstances and the irreparable harm to the Debtors, their estates, and all parties in interest that will ensue if the relief requested herein is not granted, the Debtors submit that no other notice need be given.

14. The terms and conditions described in this Motion are CONFIDENTIAL AND PROPRIETARY. Any party-in-interest that files an objection to this Motion may obtain more specific information by executing a Confidentiality Agreement provided by the Debtor on or before December 10, 2002 – the date on which the Debtor will seek an expedited hearing on the Motion.

15. No prior Motion for the relief requested herein has been made to this or any other Court.

WHEREFORE, the Debtors pray that for an order allowing the sale of the Prospects free and clear of all liens and interests, including those of GMAC, as lender and agent, and US Bank, enter into the proposed Term Assignment with Chaparral Natural Resources, Inc. on the terms and conditions described in this Motion, and for such other and further relief to which the Debtors may be entitled.

Respectfully submitted,

/s/ Stephen A. Roberts

Garney Griggs, Esq. (SBN. 08491000)
Stephen Roberts, Esq. (SBN 17019200)
Duane J. Brescia, Esq. (SBN 24025265)
STRASBURGER & PRICE, L.L.P.
600 Congress, Suite 2600
Austin, Texas 78701
(512) 499-3600

Shelby Jordan, Esq. (SBN 11016700)
Nathaniel Peter Holzer, Esq. (SBN 00793971)
JORDAN HYDEN WOMBLE & CULBRETH P.C.
Bank America Towers
500 N. Shoreline, Suite 900
Corpus Christi, Texas 78471

Counsel for the Debtors

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the forgoing motion was sent to all parties listed on Service list "A" via e-mail, and to all parties on listed on Service list "B" via U.S. First Class Mail postage pre-paid on the 4th day of December, 2002.

/s/ Duane J. Brescia

SERVICE LIST "A"

TRANSTEXAS GAS CORPORATION

1300 North Sam Houston Parkway East
Houston, Texas 77032-2949

Edwin B. Donahue via email: edonahue@transtexasgas.com
Nicolette Loisel via Email: nloisel@transtexasgas.com
David R. Jennings via Email: djennings@transtexasgas.com
Simon J. Ward via Email: sward@transtexasgas.com

BOARD OF DIRECTORS

R. Gerald Bennett
President & CEO
Total Safety Inc.
11111 Wilcrest Green, Suite 300
Houston, TX 77042
Via email: gbennett@totalsafetyinc.com

Ronald H. Benson
Haddington Ventures
2603 Augusta Drive, Suite 1130
Houston, TX 77057
Via email: rhbenson1@aol.com

Ted E. Davis
55 Mott Lane
Houston, TX 77024
Via email: tedavisok@aol.com

Vincent J. Intrieri
Starfire Holding Corp.
767 Fifth Avenue - 47th Floor
New York, NY 10153
Via email: vintrieri@Bloomberg.net

JORDAN, HYDEN WOMBLE & CULBRETH, P.C.
(Counsel to TRANSTEXAS in Corpus Christi)
500 North Shoreline Dr. Suite 900
Corpus Christi Texas, 78471
Shelby Jordon via email: sjordan@jhwclaw.com
Nathaniel Peter Holzer via email: pholzer@mail.jhwclaw.com

STROOCK & STROOCK & LAVAN LLP
(COUNSEL TO TRANSTEXAS)
180 Maiden Lane
New York, New York 10038
Michael J. Sage via email: msage@stroock.com
Gerald C. Bender via email: gbender@stroock.com

HAHN HESSEN LLP (COUNSEL TO GMACC)
488 Madison Ave., 14th Floor
New York, NY. 10022
Gil Bachenroth via email: gbackenroth@hahnhessen.com
Rosane Matzat via email: rmatzat@hahnhessen.com

JEFFERIES & COMPANY, INC. (FINANCIAL ADVISOR TO TRANSTEXAS)
605 Poydras Street, Suite 2215
New Orleans, Louisiana 70130
Daniel O. Conwill, IV via email: dconwill@jefco.com

ICAHN ASSOCIATES AND AFFILIATED COMPANIES
767 Fifth Avenue
New York, New York 10153
Vincent J. Intrieri via email: vintrieri@bloomberg.net
Keith Schaitkin via email: cls@sfire.com
Matt Goldfarb via email: mgoldfarb@sfire.com

CLIFFORD CHANCE (COUNSEL TO CSFB)
Clifford Chance US LLP
450 Lexington Avenue
New York, NY 10017
Brian Hoffman via email: brian.hoffman@cliffordchance.com
Dennis Drebsky via email: dennis.drebsky@cliffordchance.com

MASLON EDELMAN BORMAN & BRAND (COUNSEL TO INDENTURE TRUSTEE)
3300 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402
Clark T. Whitmore via email: clark.whitmore@maslon.com

GMAC COMMERCIAL CREDIT LLC
Esther D. Miller via email: esthermiller@gmaccc.com

MCGINNIS, LOCHRIDGE & KILGORE, LLP
Jeff Bohm via email: jbohm@mcginnislaw.com

SERVICE LIST "B"

Debtor and Debtor's Counsel:

David R. Jennings
Transtexas Gas Corporation
1300 N. Sam Houston Pkwy East
Suite 310
Houston, TX 77032-2949

Stephen A. Roberts
Strasburger & Price, L.L.P.
600 Congress Ave, Ste. 2600
Austin, TX 78701

Shelby A. Jordan
Jordan Hyden Womble, et al.
500 N. Shoreline Dr., Ste 900
Corpus Christi, TX 78471

Michael Sage
Stroock & Stroock & Lavan LLP
180 Maiden Ln
New York, NY 10038-4982

Garney Griggs
Strasburger & Price, L.L.P.
1301 McKinney Street, Ste, 3200
Houston, TX 77010

U.S. Trustee:

Nancy Lynne Holley
U.S. Trustee's Office
515 Rusk, Room 3516
Houston, TX 77002

Richard Simmons
U.S. Trustee's Office
515 Rusk, Room 3516
Houston, TX 77002

Government Entities:

Internal Revenue Service
Attn: Keri Templeton
Special Procedures Staff
Mail Stop 5026 AUS
300 E. 8th St.
Austin, TX 78701

State Comptroller of Public Accounts
Revenue Accounting Division
Bankruptcy Section
P.O. Box 13528
Austin, Texas 78711

Secured Creditors:

Clifford Chance
attn: Brian Hoffman
200 Park Avenue
New York, New York, 10166
For Credit Suisse First Boston, Oaktree
Capital Management, LLC, and Angelo,
Gordon & Co. LP

High River Limited Partnership
attn: Keith Schaitkin,
Assoc. General Counsel
767 Fifth Avenue
New York, New York, 10153

Maslon, Edelman et al
attn: Clark Whitmore, Esq,
90 S. Seventh Street, Suite 3300
Minneapolis, Minnesota, 55402
on behalf of US Bank National Assoc.

Coastline Resources
KRM Investments
1177 W. Loop S., Ste. 1670
Houston, TX 77027

GMACC
1290 Ave. of the Americas
New York, NY 10104

Jeffries Analytical Trading Group, Inc.
650 5th Avenue
New York, NY 10104

State of Texas
Comptroller of Accounts
111 E. 7th St.
Austin, TX 78774-0100

Cresent Machinery
7455 Cullen Blvd.
Houston, TX 77051

Jefferson County
P.O. Box 2112
Beaumont, TX 77004

Top 20 Unsecured Creditors for TransTexas Gas Corporation:

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| Credit Suisse First Boston Management Corporation 11 Madison Avenue New York, NY 10010 | R & B Falcon Drilling USA Trans Ocean Sendco Forex P. O. Box 1968 Houma, LA 70361 | Montgomery Trucking Inc. A Rex Trucking, Inc. Affiliate C/o Metro Financial Svrs. PO Box 91387 Dallas, TX 75397-0817 |
| Coastal Flow Measurement Inc. PO Box 58965 Houston, TX 77258 | Wright Express Corp. Fleet Fueling PO Box 6293 Carol Stream, IL 60197-6293 | Superior Energy Svrs. Corp. F/k/a Carkinal Services PO Box 95375 New Orleans, LA 70195 |
| Shamrock Equipment Rental PO Box 367 Devers, TX 77538 | Workstation Integrations Inc. 22028A Highland Knolls Suite 100 Katy, TX 77450 | KDR Supply, Inc. PO Box 10130 Liberty, TX 77575 |
| Dru-Chem, Inc. PO Box 1307 El Campo, TX 77437 | Houston Supply and Manufacturing Co., Inc. P. O. Box 91387 Houston, TX 77091 | Verizon Wireless PO Box 660108 Dallas, TX 75266-0108 |
| Circle C. Welding 1116 Kadera Road Angleton, TX 77515 | Kiva Construction & Engineering, Inc. P. O. Box 429 Anahuac, TX 77514 | Eagle Lake Energy Svrs. Inc. Rt 1 Box 226-G Eagle Lake, TX 77434 |

| | | |
|---|--|---|
| Thomas Petroleum, Inc. P. O. Box 4317 Victoria, TX 77903-4317 | Advanced Record Storage 10692 Haddington Dr. Houston, TX 77043 | US Bank Corp. Trust Service 180 East Fifth Street, 2nd Floor St. Paul, MN 55101 |
| Datachem, Inc. P. O. Drawer 1840 LA Place, LA 70069 | Oil & Gas Measurement Equip P.O. Box 55641 Houston, TX 77255 | |

Top 20 Unsecured Creditors for Galveston Bay Processing Corporation:

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| Datachem, Inc. P. O. Drawer 1840 LA Place, LA 70069 | Lases Company, Inc. P. O. Box 1779 Winnie, TX 77665 | Key Energy Services, Inc. P. O. Box 676364 Dallas, TX 75267-6364 |
| Farm & Home Supply, Inc. P. O. Box A Winnie, TX 77665 | Entergy S.W. Region P.O. Box 61009 New Orleans, LA 70161-1009 | Industrial Apparatus Services, Inc. P.O. Box 26018 Beaumont, TX 77720-8029 |
| Aramark Uniform Service, Inc. P.O. Box 1339 Stafford, TX 77497-1339 | Christina Ciampo 644 Evans Winnie, TX 77665 | Stephens Office Supply Inc 1201 W. Loop N. # 170 Houston, TX 77055 |
| M.B. Energy, LLC. P.O. Box 146 Broussard, LA 70518 | Reynolds Pipe & Supply Inc P.O. Box 5554 Beaumont, TX 77726 | United Parcel Service P.O. Box 650580 Dallas, TX 75265-0580 |
| MOTION OF THE DEBTORS FOR AUTHORIZATION TO (I) SELL REAL PROPERTY FREE AND CLEAR OF LIENS AND OTHER INTERESTS PURSUANT 11 U.S.C. § 363 AND (II) ENTER INTO TERM PARTIAL ASSIGNMENT OF OIL, GAS & MINERAL LEASES WITH CHAPARRAL NATURAL RESOURCES, INC. - page 10 | | |
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Top 20 Unsecured Creditors for Galveston Bay Pipeline Company:

Greer Herz & Adams, L.L.P.
John S. McEldowney
One Moody Plaza
Galveston, TX 77550

First Choice Power
P. O. Box 901088
Fort Worth, TX 76101-2088

Parties Requesting Notice:

Jeff Bohm/Steve Turner
McGinnis, Lochridge & Kilgore, LLP
919 Congress Ave, Ste. 1300
Austin, TX 78701
Fax 495-6093
Attorneys for
GMAC Commercial Credit LLC

Gilbert Backenroth/Rosanne T. Matzat
Hahn & Hesson LLP
488 Madison Ave, 14th-15th Fl.
New York, NY 10022
Fax 212-478-7400
Attorneys for
GMAC Commercial Credit LLC

Michael J. Darlow
Perdue, Brandon, et al
1235 N. Loop W., Ste. 600
Houston, TX 77008
Fax 713-862-1429
Attorney for
Dickinson I.S.D.

Lori Robertson
Linebarger Goggan, et al
1949 S. IH 35 (78741)
P.O. Box 17428
Austin, TX 78760-7428
Fax 512-443-5114
Attorney for
**Rio Grande City CISD, San Isidro ISD,
Jim Wells CAD, Nueces Cty, Starr Cty,
Webb CISD, Live Oak CAD, Zapata
Cty, Victoria Cty, Roma ISD, City of
Roma**

Richard T. Chapman
Anderson, Smith, Null et al, L.L.P.
One O'Connor Plaza, Seventh Floor
P.O. Box 1969
Victoria, TX 77902
Fax 361-573-5288
Attorneys for Thomas Petroleum, LTD.

Kevin M. Maraist
Hornblower, Manning et al P.C.
P.O. Box 2728
Corpus Christi, TX 78403-2728
Fax 361-888-8222
Local Counsel for U.S. Bank

Rhett Campbell/Mitchell Ayer
Thompson & Knight LLP
333 Clay Street, Ste. 3300
Houston, TX 77002-4499

Attorneys for Davis Petroleum

Patricia Reed Constant
800 North Shoreline Plaza
Ste. 320, South Tower
Corpus Christi, TX 78401
Fax 361-887-1043

Attorneys for Davis Petroleum

Mark Browning
Asst. A.G., B&C Division
P.O. Box 12548
Austin, Texas 78711-2548
Fax 512-482-8341
Attorneys for TWC

Christina Stone
Gaughan & Stone
2500 Tanglewilde, Suite 222
Houston, TX 77063
Fax 713-953-7513
Attorneys for Shamrock Farrell, Inc.

John R. Lane, Jr.
John Lane & Associates
8610 N. New Braunfels, Suite 517
San Antonio, Tx 78217
Fax 210-804-2339
Attorneys for Chanoco Corp.

George A. Kurisky, Jr.
Johnson Finkel DeLuca & Kennedy
P.C.
1331 Lamar, Suite 1080
Houston, TX 77010
Fax 713-652-5130
Attorneys for Carson Energy, Inc.